IMPERIUM CAPITAL

momentum

Global Matters Weekly

28 September 2020

The long & short of what's next

– James Klempster, CFA

This week heralds the start of the final quarter of 2020. What an extraordinary year it has been thus far. Of course, for investment managers, the key area to focus on is what next? This question can have multiple different dimensions. For example, the answer might be very different if we are focusing on the long term as opposed to the short term. We have made the point repeatedly that in the long run we will cast this virus off. It remains a truism that the virus is not unpicking the very fabric of society nor is it destroying the functioning of capital markets and as a result, from an investment perspective at least, we will get through this.

> The acute economic pain of the first couple of quarters is behind us but there is still plenty of debate going on as to what shape the economic recovery might take

That level of certainty is possible with a long enough time line: the temporal element to conundrum remains key, however, and one of the most difficult parts of the COVID puzzle to unpick because shorter term news flow will have a big impact on markets regardless of the long term direction. This is a particularly important question in light of the past couple of weeks as we have seen, in Europe at least, a rolling back of the erstwhile opening up of economies. The first lockdown created an unprecedented supply and demand shock - which was totally of our own volition, of course – but government largesse kept economies heading in the right direction albeit at a glacial pace. Now, Europe is entering autumn, a time where seasonally one would expect to see an increase in coughs and the flu and is doing so on the back foot with rising case numbers in Germany, Spain, France and the UK as well as rising hospitalisations (albeit at a mercifully much lower rate than earlier in the year).

> most major stock markets are still underwater year to date

The acute economic pain of the first couple of quarters is behind us but there is still plenty of debate going on as to what shape the economic recovery might take. After a strong rebound in activity over the summer, there are some concerning signs out there that the recovery is running out of steam even before lockdown light was introduced. From an investment perspective, however, there can be no debate about the shape of the stock market recovery, as global stocks have bounced back almost as abruptly as they fell forming a quintessential V shape. Now that we have retraced much of the falls, the question is 'how much is in the price?'.

The US has led markets higher thanks in no small part to a concentrated list of mega cap tech names that are benefitting from the trend to stay at home. Outside of the US, most major stock markets are still underwater year to date and as a result look to have a reasonable discount for the embattled environment that we find ourselves in today. There are risks to this view, of course, because if the growing 'lockdown light' moves into a more draconian curtailment of economic activity then there is a case to be made that there is more downside to come. Conversely, it also seems likely that a quick and successfully rolled out vaccine programme is not fully priced in. Hence, there is arguably both a negative potential surprise out there as well as a positive one.

> Uncertainty remains and we believe the present environment lends itself to prudent, well diversified portfolio management

Placing too great a reliance on either outcome playing out would be to put a lot of faith on low quality data and such behaviour is akin to speculation. Perhaps a muddle through is the least intellectually satisfying answer but it has some merit, insofar as we are all becoming more adept at operating in a locked down manner and consumption and economic activity are seemingly continuing today rather than being snuffed out. Governments and central banks, while lacking the desire or the capacity to continue with the levels of almost limitless generosity that we saw earlier in the year, are still alive to the idea of keeping the economy ticking over, keeping as many people employed as possible and keeping businesses in suspended animation wherever possible rather than letting them collapse.

Uncertainty remains and we believe the present environment lends itself to prudent, well diversified portfolio management. It is in these sorts of environments that we are reminded why we target delivering outcomes for our clients over their time horizons because performance against peers or a benchmark just might not cut it in the years ahead.

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The Marketplace

- Sell-off in global risk assets
- Uptick in coronavirus cases hampers service sector
- Brent crude fell 2.9% to $41.9 a barrel
- Gold fell 4.6% ending the week at $1861.6 per ounce.

Market Focus

US

- The large-cap US equity benchmark fell -0.6%, representing a fourth straight week of declines. Banks and Airlines were among the largest laggards.
- Technology stocks proved resilient, helping the tech-heavy Nasdaq Composite Index record a gain of +1.1% for the week.
- Allegations that major global banks had been involved in extensive money laundering operations dragged financials shares lower and seemed to be a further drag on overall sentiment.
- President Trump has named Judge Amy Coney Barrett to fill the vacancy left by the death of Justice Ruth Bader Ginsburg on the Supreme Court.
- On a trade-weighted basis, the US dollar rose +1.85% and reached a two-month high.
- US Treasuries returned +0.3% on the week. The yield on the benchmark 10-year Treasury note fell to 0.65% from 0.69% a week ago

Europe

- European equities fell -3.7% with investor sentiment weighed down by rising coronavirus cases and further deteriorating economic data.
- A surge in coronavirus infections prompted France, Spain and the southern German state of Bavaria to implement stricter containment measures.
- The European flash manufacturing PMI rose to 53.7 in September from 51.7 in August, while the services PMI declined to 47.6 from 50.5 as rising coronavirus infection rates and social distancing weakened demand in the services sector

UK

- Prime Minister Boris Johnson announced tighter social restrictions, advised people to work from home, and increased fines for noncompliance. The measures could last for six months and more limits would be imposed if needed.
- To combat the effects of coronavirus, the British government unveiled a new jobs support programme to replace the furlough scheme that is set to expire in October. Under the new programme further support will be provided to jobs, businesses and the hospitality and tourism sectors.
- UK equities fell -2.8% on the week

Asia/Rest of The World

- Global benchmark provider FTSE Russell said it will include Chinese government bonds in its World Government Bond Index from October 2021.
- Chinese equities fell -3.7% on the week.
- Bank of Japan Governor Haruhiko Kuroda and newly elected Prime Minister Yoshihide Suga agreed to remain in close contact and coordinate policy in their first meeting since the prime minister took office. Japanese equities fell -0.7% on the week.
- Turkey's central bank surprised investors with a 200-basis-point increase in its benchmark lending rate, the one-week repo auction rate, from 8.25% to 10.25%.

Past performance is not indicative of future returns.

Source: Bloomberg. Returns in local currency unless otherwise stated.

Asset Class/Region	Currency	Currency returns			
		Week ending 25 Sept. 2020	Month to date	YTD 2020	12 months
Developed Market Equities					
United States	USD	-0.6%	-5.7%	3.1%	12.0%
United Kingdom	GBP	-2.8%	-2.0%	-21.9%	-18.8%
Continental Europe	EUR	-3.7%	-2.4%	-9.3%	-3.1%
Japan	JPY	-0.7%	1.0%	-3.7%	3.5%
Asia Pacific (ex Japan)	USD	-3.8%	-4.0%	1.0%	11.2%
Australia	AUD	1.7%	-1.2%	-8.5%	-8.2%
Global	USD	-1.7%	-5.2%	-0.1%	8.3%
Emerging markets equities					
Emerging Europe	USD	-5.7%	-8.9%	-29.6%	-20.8%
Emerging Asia	USD	-4.2%	-3.5%	5.4%	18.1%
Emerging Latin America	USD	-5.6%	-3.9%	-35.3%	-28.4%
BRICs	USD	-4.1%	-5.0%	-0.1%	12.3%
China	USD	-3.7%	-5.6%	13.0%	28.2%
MENA countries	USD	-1.0%	1.6%	-8.5%	-4.4%
South Africa	USD	-7.4%	-5.6%	-25.1%	-17.2%
India	USD	-4.2%	-3.4%	-11.5%	-6.0%
Global emerging markets	USD	-4.4%	-3.7%	-3.3%	7.7%
Bonds					
US Treasuries	USD	0.3%	0.4%	9.6%	9.1%
US Treasuries (inflation protected)	USD	-0.1%	-0.6%	9.5%	10.2%
US Corporate (investment grade)	USD	-0.7%	-0.3%	6.6%	8.4%
US High Yield	USD	-1.5%	-1.7%	-0.2%	2.3%
UK Gilts	GBP	0.2%	2.1%	9.0%	4.4%
UK Corporate (investment grade)	GBP	-0.5%	0.7%	5.0%	4.6%
Euro Government Bonds	EUR	0.4%	1.4%	3.8%	0.6%
Euro Corporate (investment grade)	EUR	-0.2%	0.2%	0.7%	0.3%
Euro High Yield	EUR	-1.5%	-0.9%	-3.1%	-1.4%
Japanese Government	JPY	0.0%	0.4%	-0.9%	-2.3%
Australian Government	AUD	0.6%	1.3%	4.9%	2.3%
Global Government Bonds	USD	-0.8%	-0.4%	6.9%	6.2%
Global Bonds	USD	-1.0%	-0.8%	6.0%	6.3%
Global Convertible Bonds	USD	-1.2%	-2.2%	10.6%	16.1%
Emerging Market Bonds	USD	-1.7%	-2.3%	1.0%	4.5%

Source: Bloomberg. Past performance is not indicative of future returns

Asset Class/Region	Currency	Currency returns			
		Week ending 25 Sept. 2020	Month to date	YTD 2020	12 months
Property					
US Property Securities	USD	-2.8%	-4.8%	-19.1%	-19.5%
Australian Property Securities	AUD	0.5%	-0.3%	-16.6%	-19.4%
Asia Property Securities	USD	-3.6%	-3.4%	-18.7%	-13.9%
Global Property Securities	USD	-3.7%	-4.6%	-18.8%	-15.6%
Currencies					
Euro	USD	-2.1%	-2.7%	3.5%	6.2%
UK Pound Sterling	USD	-1.9%	-5.0%	-4.2%	2.8%
Japanese Yen	USD	-1.2%	0.2%	2.8%	2.1%
Australian Dollar	USD	-4.1%	-5.0%	-0.1%	4.0%
South African Rand	USD	-5.2%	-1.2%	-18.5%	-12.4%
Swiss Franc	USD	-2.2%	-2.9%	4.0%	6.7%
Chinese Yuan	USD	-0.8%	0.4%	2.0%	4.5%
Commodities & Alternatives					
Commodities	USD	-3.0%	-4.1%	-19.7%	-15.8%
Agricultural Commodities	USD	-2.4%	0.7%	-1.9%	5.9%
Oil	USD	-2.9%	-7.4%	-36.5%	-32.8%
Gold	USD	-4.6%	-5.6%	22.2%	23.7%
Hedge funds	USD	-0.6%	-0.6%	1.1%	3.8%

Source: Bloomberg. Past performance is not indicative of future returns

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